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ACTION EUR-12

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INFO ALL IEA CAPITALS 0010

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E.O. 11652: N/A

TAGS: ENRG, OECD

SUBJECT: IEA: SEQ MEETING, MARCH 8, 1976

1. SUMMARY. THE SEQ MET MARCH 8 TO REVIEW THE LATEST VERSION OF THE EMERGENCY MANAGEMENT MANUAL PRIOR TO DELIVERY TO THE GOVERNING BOARD. GROUP ALSO CONSIDERED SECRETARIAT DOCUMENT SUMMARIZING EMERGENCY RESERVE SITUATION IN MEMBER COUNTRIES AND PRELIMINARY ESTIMATE OF COSTS OF BUILDING STOCKS AND STORAGE CAPACITY TO MEET 90 DAY SELF SUFFICIENCY TARGET BY 1980. THE INDUSTRY ADVISORY BOARD PRESENTED TO THE SEQ A PROPOSAL FOR THE RECOVERY, BY INDUSTRY, OF EXTRAORDINARY COSTS INCURRED AS THE RESULT OF IEA MANDATED ACTION. THIS WAS ACCOMPANIED BY A SECOND PAPER DEALING WITH THE SETTLEMENT OF DISPUTES. NEXT MEETING OF SEQ WILL BE HELD ON APRIL 28-29. END SUMMARY

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2. EMERGENCY RESERVES - THE SEQ REVIEWED A DRAFT

REPORT PREPARED BY THE SECRETARIAT ON THE EMERGENCY RESERVE SITUATION IN MEMBER COUNTRIES AND THE IMPLICATIONS OF RAISING THE EMERGENCY RESERVE COMMITMENT FROM 70 TO 90 DAYS. USING JULY 1975 DATA THE SECRETARIAT ESTIMATES THAT 5 PARTICIPATING COUNTRIES SHOWED SHORTCOMINGS OF APPROXIMATELY 10 PERCENT FROM REQUIRED STOCK LEVELS AND THAT 1 COUNTRY HAD A SHORTFALL OF 15 PERCENT. (THESE FIGURES ARE WITHOUT REFERENCE TO POSSIBLE FUEL SWITCHING OR STANDBY PRODUCTION CAPABILITIES BUT THE IMPACT OF THESE POSSIBLE COMPENSATORY FACTORS ARE CONSIDERED MARGINAL.)

BASED ON DATA OBTAINED FROM PARTICIPATING COUNTRIES IN AN EMERGENCY RESERVE QUESTIONNAIRE (SEQ(75)44) THE SECRETARIAT HAS ESTIMATED THE COST OF BUILDING IEA STOCKS AND STORAGE CAPACITY TO MEET A 90 DAY SELF SUFFICIENCY LEVEL BY 1980. ESTIMATES HAVE BEEN CALCULATED ON THE BASIS OF TWO SCENARIOS - ONE OF "NO GROWTH" IN CONSUMPTION OVER 1976-1980 PERIOD AND THE OTHER ASSUMING 4 PERCENT AVERAGE ANNUAL INCREASE (A.A.I.) FOR CONSUMPTION OVER THE SAME PERIOD. UNDER THESE CONDITIONS THE SECRETARIAT ESTIMATES COSTS AS FOLLOWS (IN BILLIONS OF 1975 DOLLARS)

	OIL	STORAGE	TOTAL
NO GROWTH SCENARIO	\$3.8	\$2.4	\$6.2
4 PERCENT A.A.I. SCENARIO	\$9.5	\$3.8	\$13.3

THE ABOVE FIGURES WOULD HAVE TO BE INCREASED BY AN ADDITIONAL 2.8 TO 3.2 BILLION DOLLARS IN 1980 IF INTERNATIONAL MARINE BUNKERS AND NET NAPHTHA FOR NON-ENERGY USE ARE EVENTUALLY INCLUDED IN THE EMERGENCY RESERVE COMMITMENT.

THE REPORT ALSO INDICATED THAT ON THE BASIS OF PARTIAL RETURNS FROM COUNTRIES MINIMUM WORKING STOCKS AVERAGED ABOUT 45 DAYS AND UNAVAILABLE OIL AVERAGED ABOUT 2 1/2 PERCENT OF AVAILABLE STORAGE CAPACITY.

DELEGATIONS ARE TO REVIEW THE SECRETARIAT DRAFT AND PROVIDE ADDITIONAL INFORMATION AS REQUIRED. THE SECRETARIAT WILL ALSO REVIEW THE DRAFT WITH IAB AND VARIOUS DELEGATIONS AND PREPARE FINAL DOCUMENT FOR CIRCULATION PRIOR TO NEXT SEQ MEETING.

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3. EMERGENCY MANAGEMENT MANUAL - SEQ REVIEWED CURRENT VERSION OF THE MANUAL PRIOR TO SUBMISSION TO THE GOVERNING BOARD. JAPANESE REQUESTED THAT MANUAL INCLUDE SPECIFIC LANGUAGE WHICH COULD REQUIRE THAT INTERNATIONAL OIL COMPANIES (RATHER THAN GOVERNMENTS) ALLOCATE OIL IN EMERGENCY BETWEEN AFFILIATES AND NON-AFFILIATES ACCORDING TO HISTORIC I.E. PRE CRISIS, MARKET PATTERNS. ONLY ITALY SUPPORTED JAPAN. U.S. AND

IAB REPRESENTATIVES NOTED THAT SUCH A PROCEDURE WOULD,
AT THE MINIMUM, GREATLY COMPLICATE ALLOCATION
PROCEDURES AND HAD SERIOUS ANTI-TRUST IMPLICATIONS IN
U.S. AND PROBABLY IN EC. JAPANESE WERE UNABLE TO GIVE
SATISFACTORY REASON WHY THIS PROBLEM COULD NOT BE
SOLVED UNDER A DOMESTIC ALLOCATION SCHEME. CHAIRMAN
AND SECRETARIAT NOTED THAT EMERGENCY SYSTEM ALREADY
PROVIDED AMPLE OPPORTUNITY FOR CONSULTATIONS ON NATIONAL
PROBLEMS DURING CRISIS. CHAIRMAN SUGGESTED FOLLOWING
ALTERNATIVE PARAGRAPH FOR INCLUSION IN MANUAL.

"(IF A NATIONAL GOVERNMENT IS NOT IN A POSITION

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TO RE-ESTABLISH THE BALANCE BETWEEN COMPANIES AT A
NATIONAL LEVEL, IT CAN PUT ITS PROBLEM TO THE SEQ
EMERGENCY GROUP AFTER CONSULTATION WITH THE IEA

ALLOCATION COORDINATOR IN ORDER TO GET A DECISION
ON HOW TO SOLVE THAT PROBLEM AT THE LEVEL OF THE
IEA)."

JAPANESE RESERVED THEIR POSITION ON THIS ISSUE. U.S.
DELEGATION INDICATED THAT CHAIRMAN'S ALTERNATIVE WOULD
HAVE TO BE DISCUSSED WITH U.S. LEGAL EXPERTS (BECAUSE
OF ITS POTENTIAL ANTI-TRUST IMPLICATIONS) BEFORE WE
COULD ACCEPT PRESENT WORDING.

U.S. DELEGATION SOUGHT CERTAIN CHANGES IN
DESCRIPTION OF ROLE OF THE ALLOCATION COORDINATOR IN
EMERGENCY OPERATIONS. U.S. STRESSED IMPORTANCE OF
PARTICIPATING COUNTRIES KEEPING CONTROL OF EMERGENCY
ALLOCATION POLICY AND ACTIONS OF SECRETARIAT AND THE
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ALLOCATION COORDINATOR IN AN EMERGENCY. U.S. AGAIN
STATED PREFERENCE FOR ALLOCATION COORDINATOR OTHER THAN
EXECUTIVE DIRECTOR OF AGENCY. WE ALSO ATTEMPTED TO
MODIFY TEXT TO ASSURE THAT MEMBERS OF THE THREE MAN
ALLOCATION COORDINATING TEAM (TO BE DRAWN FROM
GOVERNMENT AND/OR INDUSTRY) ARE APPROVED BY SEQ RATHER
THAN SIMPLY SELECTED BY EXECUTIVE DIRECTOR. SUPPORT FOR
U.S. POSITION WAS LIMITED. EC COUNTRIES GENERALLY
PREFERRED TO GIVE EXECUTIVE DIRECTOR RESPONSIBILITY FOR
ALLOCATION COORDINATION AND SUPERVISION. ALTHOUGH
NOMINALLY RESPONSIBLE TO AN SEQ EMERGENCY GROUP,
COORDINATOR WILL HAVE AUTHORITY TO APPROVE ALLOCATION
PROPOSALS OF THE INDUSTRY SUPPLY ADVISORY GROUP WHICH
WILL HANDLE THE TECHNICAL ASPECTS OF ALLOCATION FOR THE
IEA DURING AN EMERGENCY.

4. EXTRAORDINARY COSTS AND SETTLEMENT OF DISPUTES.

THE IAB SUBMITTED TO IEA GOVERNMENTS PAPERS ON
EXTRAORDINARY COSTS AND SETTLEMENT OF DISPUTES THAT
MIGHT ARISE AS THE RESULT OF MANDATED ACTIONS BY THE
IEA DURING EMERGENCIES. ALL PARTICIPANTS AGREED ON THE
NEED FOR CAREFUL STUDY AND FULL LEGAL REVIEW OF THESE
PROPOSALS BECAUSE OF THE POTENTIAL LEGAL AND FINANCIAL
OBLIGATIONS FOR GOVERNMENTS WHICH THESE COMPANY
PROPOSALS IMPLY. PARTICIPATING COUNTRIES WILL REVIEW
THESE PAPERS IN CAPITALS FOR DISCUSSION AT NEXT MEETING.

5. PRODUCT IMBALANCES - SOME COUNTRIES HAD EARLIER
EXPRESSED CONCERN THAT UNDER AN EMERGENCY ALLOCATION
SCHEME BASED ON CRUDE OIL AND CRUDE OIL EQUIVALENTS
THEY MIGHT NOT RECEIVE AN APPROPRIATE PRODUCT MIX IN A
CRISIS. (GERMANS ARE PARTICULARLY WORRIED BECAUSE OF
THEIR HEAVY DEPENDENCE ON REFINED PRODUCTS ORIGINATING
INDUTCH EXPORT REFINERIES.) SECRETARIAT CIRCULATED
DRAFT PROPOSAL ADDRESSING THIS ISSUE FOR INCLUSION IN

THE EMERGENCY MANAGEMENT MANUAL. IT WAS EMPHASIZED THAT PROPOSAL DOES NOT SET UP GENERAL PRODUCT ALLOCATION PROCEDURES BUT IS RATHER AN ATTEMPT TO ESTABLISH AN EXCEPTIONS MECHANISM TO REDRESS IMBALANCES THAT MAY NOT BE RESOLVED BY EITHER VOLUNTARY ACTIONS BY THE COMPANIES OR EFFORTS UNDERTAKEN AT THE NATIONAL LIMITED OFFICIAL USE

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LEVEL. THE SECRETARIAT PROPOSAL WILL BE INCLUDED IN THE VERSION OF THE MANUAL GOING TO THE GOVERNING BOARD FOR ILLUSTRATIVE PURPOSES BUT WILL BE SUBJECT TO MODIFICATION AFTER DETAILED REVIEW IN CAPITALS.

6. AT THE REQUEST OF THE NETHERLANDS A SMALL WORKING GROUP OF INTERESTED COUNTRIES WILL BE ESTABLISHED TO AGAIN REVIEW THE INTERNATIONAL MARINE BUNKERS SITUATION AND PARTICULARLY THE QUESTION OF HOLDING EMERGENCY RESERVES AGAINST BUNKERS.

(NOTE: PENDING RESOLUTION OF THIS QUESTION THERE IS AN ANOMALY IN THE EMERGENCY SYSTEM I.E. BUNKERS ARE INCLUDED IN BASE PERIOD CONSUMPTION FOR PURPOSES OF DETERMINING ALLOCATION RIGHTS BUT THERE IS NO REQUIREMENT FOR COUNTRIES TO HOLD EMERGENCY STOCKS AGAINST BUNKERS.)

7. NEXT MEETING: THE NEXT SEQ MEETING WILL BE HELD IN PARIS ON APRIL 28-29.
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